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Department of State TELEGRAM

210

CONFIDENTIAL 863

PAGE 01 TRIPOL 00286 111203Z

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INFO AMEMBASSY ALGIERS
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AMEMBASSY BENGHAZI
AMCONGEN DHAHRAN
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY TEHRAN

DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY CJ DATE 8/7/81
PORTIONS DENIED AS INDICATED

C O N F I D E N T I A L TRIPOLI 0286

C O R R E C T E D C O P Y (PARA 1)

SUBJ: POSTED PRICE NEGOTIATIONS

REF: TRIPOLI 212

1. MINISTRY PETROLEUM AND MINERALS POSTED PRICE COMMITTEE BEGAN NEGOTIATIONS WITH INDIVIDUAL COMPANY REPRESENTATIVES FEB 5. SCHEDULE GENERALLY CALLS FOR SESSIONS WITH THREE COMPANIES DAILY, EXCEPT FRIDAYS AND SUNDAYS, THROUGH FEB 14. SESSIONS OPENED WITH ESSO FOLLOWED BY OCCIDENTAL. ACCORDING COMPANY OFFICIALS, ATMOSPHERE OF MEETINGS BUSINESSLIKE AND REASONABLY CORDIAL, ALTHOUGH FREEDOM OF EXCHANGES SOMEWHAT INHIBITED BY MINISTRY'S DECISION TO RECORD COMMITTEE PROCEEDINGS ON TAPE.

2. ESSO [redacted] REPORTS FIRST ROUND WAS SET PIECE, WITH COMMITTEE RETRACING IN GREATER DETAIL VIEWS OUTLINED IN COMMITTEE CHAIRMAN MUNTASIR'S

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Department of State **TELEGRAM**

CONFIDENTIAL

PAGE 02 TRIPOL 00286 111203Z

PRESENTATION TO SECOND GENERAL MEETING OF COMPANY HEADS (REFTEL). COMMITTEE ARGUED FOR: A) HIGHER POSTED PRICES TO EQUATE LIBYEN TEVEL WITH THAT FOR ARABIAN LIGHT AND KIRKUK CRUDES, B) INCREASE IN GRAVITY DIFFERENTIAL TO MORE THAN TWO CENTS PER DEGREE API AND ELIMINATION OF 40 DEGREE LIMIT ON DIFFERENTIAL, AND C) INSTITUTION OF LOW SULFUR ALLOWANCE. COMMITTEE STATED POSTED PRICE IT CONSIDERED EQUITABLE WOULD BE $2.67 PER BARREL FOR 40 DEGREE CRUDE AND NOTED ELEVEN CENTS OF DIFFERENCE BETWEEN THIS AND PRESENT POSTING OF $2.23 WAS REQUIRED TO ACHIEVE PARITY WITH PERSIAN GULF CRUDES WHILE REMAINDER WAS ADJUSTMENT FOR GRAVITY AND SULFUR CONTENT.

3. ESSO COUNTERED BY CITING: A) GAP BETWEEN POSTED AND REALIZED PRICES, ALTHOUGH LIBYAN LAW SPECIFIES POSTINGS TO BE DETERMINED WITH RESPECT TO MARKET PRICES, B) DECLINE IN TANKER CHARTER RATES TOWARD PRE-1967 LEVEL, ALTHOUGH LIBYA STILL BENEFITS FROM QUOTE TEMPORARY UNQUOTE SUSPENSION OF OPEC DISCOUNT ALLOWANCE AGREED UPON TO OFFSET HIGHER FREIGHT RATES FOLLOWING CLOSURE OF SUEZ CANAL, C) OVERSUPPLY OF LOW-SULFUR CRUDE RELATIVE TO EUROPEAN DEMAND (ESTIMATED BY ESSO AT ABOUT 150,000 B/D), WHICH LONG SINCE HAS ELIMINATED PREMIUM FOR LOW SULFUR FUEL, AND D) LOWER NET-BACK ON LIBYAN CRUDE COMPARED WITH PERSIAN GULF CRUDES OF SIMILAR GRAVITY BECAUSE OF PARAFFIN CONCENTRATION IN LIBYAN FUEL OIL FRACTION AND BECAUSE REFINERY YIELD OF LIGHT PRODUCTS FROM LIBYAN CRUDE STILL IS OUT OF BALANCE WITH COMPOSITION OF EUROPEAN DEMAND. ESSO TOLD COMMITTEE FOR THESE REASONS, AND BECAUSE LIBYA'S PER BARREL REVENUE ALREADY IS HIGHEST IN EASTERN HEMISPHERE, POSTED PRICE INCREASE IS NOT JUSTIFIED.

4. TWO HOUR MEETING WITH ESSO CLOSED AMICABLY BUT INCONCLUSIVELY. COMMITTEE STATED ESSO REPS WOULD BE INVITED BACK FOR SECOND ROUND AFTER IT HAD MET WITH OTHER COMPANIES. MEETING WITH OCCIDENTAL WAS BRIEF, SINCE OXY WAS NOT PREPARED TO MAKE A DEFINITIVE PRESENTATION, BUT COMMITTEE FOLLOWED SAME LINE AS WITH ESSO. OXY REQUESTED, AND COMMITTED AGREED TO, CONTINUANCE OF OXY SESSION TO EARLY MARCH. MEETINGS WITH OTHER COMPANIES HAVE FOLLOWED PATTERN SIMILAR TO THAT WITH ESSO.

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Department of State **TELEGRAM**

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PAGE 03 TRIPOL 00286 111203Z

5. COMMENT: IN REMARKS TO EMBOFF BOTH COMPANY REPS AND MINISTRY PETROLEUM AND MINERALS U/S QABLAAWI NOTED REASONABLE ATMOSPHERE SURROUNDING TALKS. COMPANIES RELIEVED AT ABSENCE OF POLEMICS AND TABLE THUMPING AND MINISTRY GRATIFIED THAT COMPANIES, SO FAR, ARE ARGUING AGAINST MINISTRY'S CASE ON ITS MERITS RATHER THAN CONTESTING LEGALITY OF DEMAND FOR PRICE INCREASE. HOWEVER, POSTING LEVEL CITED BY COMMITTEE AS ITS OBJECTIVE EXCEEDS BY SO MUCH WHAT COMPANIES MAY BE PREPARED TO ACCEPT THAT ESSO, AT LEAST, DOES NOT TAKE FIGURE SERIOUSLY. EMBASSY TOO REGARDS 44 CENT INCREASE AS INITIAL ASKING PRICE OPEN TO BARGAINING. YET, REMARKS BY QABLAAWI INDICATE THAT INCREASE SOUGHT, AT LEAST IN PART, IS BASED UPON MINISTRY'S ESTIMATE OF COMPANIES' ABILITY TO PAY. IN THIS CONTEXT, QABLAAWI REPEATED THEME, OUTLINED TRIPOLI 132, THAT SATISFACTORY FUTURE RELATIONS WITH CONCESSIONAIRES DEPENDS UPON SATISFACTORY INCREASE IN REVENUE TO LARG. HE ALSO RECOGNIZED PRICE INCREASE WOULD RETARD RATE OF LIBYAN PRODUCTION GROWTH AND ASSERTED THIS IS ACCEPTABLE TO LARG.

6. WE NOTE THAT 44 CENTS SOUGHT BY LARG IS IN SAME RANGE AS INCREASE ALGERIA SEEMS TO HAVE IN MIND IN ITS NEGOTIATIONS WITH FRANCE. FAVORABLE IMPRESSION ALGERIANS HAVE MADE ON LARG OIL ADMINISTRATORS, ESPECIALLY QABLAAWI, OVER PAST FEW MONTHS RAISES POSSIBILITY LIBYANS HAVE COME TO BELIEVE ACCESS TO STRATEGIC MAGHREB OIL SUPPLIES CAN COMMAND MUCH HIGHER PRICE. HOWEVER, WE STILL BELIEVE LIBYANS ARE FOLLOWING THEIR BARGAINING INSTINCT - PROBABLY AIMING FOR INCREASE OF AROUND TWENTY CENTS PER BARREL WHILE THEY MAY BE WILLING TO SETTLE, GRUDGINGLY, FOR AS LITTLE AS ELEVEN CENTS. THIS THESIS WILL BE TESTED IN SECOND ROUND OF NEGOTIATIONS, TO BEGIN AFTER MID-MONTH 'IID AL-ADHA HOLIDAY, WHEN LARG NEGOTIATORS TAKE OFF THEIR VELVET GLOVES. WE EXPECT PRICE COMMITTEE THEN TO ATTEMPT TO PLAY COMPANIES AGAINST EACH OTHER - OFFERING CONCESSIONS TO ONE AND THREATENING ANOTHER.
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